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AGENDA ITEM 4a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Revision of Policy on Affiliate Funds
- II. PROGRAM:** Asset Allocation
- III. RECOMMENDATION:** Recommend to the Investment Committee approval of the Statement of Investment Policy for Affiliate Funds.

IV. ANALYSIS:

This revision achieves consistency in rebalancing methods between the Affiliate Funds asset allocation policy and both the PERF and CalPERS Supplemental Income Plans (SIP) asset allocation policies. The intent in each of these policies is to preserve the desired risk and return relationships but provide flexibility in the ranges and also allow for allocations to temporarily exceed policy ranges during extreme market conditions. This flexibility is especially important given the current high levels of market volatility. Therefore, Staff is bringing this item directly to the Committee for approval rather than first requesting review by the Policy Subcommittee.

Both the Affiliate Funds and SIP hold interests in pooled funds managed by CalPERS. This shared interest makes it important for rebalancing methods to be consistent to allow for coordinated trading to minimize transactions costs.

This revision further clarifies the roles of the Committee and Staff in establishing and managing asset allocation targets and ranges for the Affiliate Funds. It also allows for the use of derivatives to rebalance back to asset allocation targets for the Affiliate Funds.

Staff recommends that the Committee approve the Affiliate Funds policy (Attachment 1). Wilshire's opinion letter is included as attachment 2.

V. STRATEGIC PLAN:

This item supports Goal VIII to manage the risks and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and, second to minimize and stabilize contributions.

VI. RESULTS/COSTS:

There are no costs associated with this item.

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